

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

TransAlta Centralia Generation, L.L.C. Docket Nos. ER05-1023-000
ER05-1023-001

ORDER ACCEPTING AND SUSPENDING PROPOSED RATE SCHEDULE AND
ESTABLISHING HEARING AND SETTLEMENT PROCEDURES

(Issued August 3, 2005)

1. In this order, we accept for filing TransAlta Centralia Generation, L.L.C.'s (TransAlta) proposed rate schedule for supplying Reactive Supply and Voltage Control from Generation Sources Service (reactive power) to Bonneville Power Administration (BPA), and suspend it for a nominal period, to become effective October 1, 2005, as requested, subject to refund. We also establish hearing and settlement judge procedures.

Background

2. On May 26, 2005, and as amended on June 14, 2005, TransAlta¹ submitted a rate schedule for compensation for the reactive power service that it provides to BPA from its Big Hanaford facility (Facility), a 248 MW combined-cycle, natural gas and steam turbine generating facility, located in Centralia, Washington. TransAlta explains that it made this filing pursuant to a Settlement Agreement that the Commission approved in Docket No. ER04-810-000 that enumerates a process for all generators included in the Settlement Agreement² to be compensated for reactive power.³

¹ TransAlta is an exempt wholesale generator under section 32 of the Public Utility Holding Company Act of 1935. See *TransAlta Centralia Generation, L.L.C.*, 90 FERC ¶ 62,134 (2000); *TransAlta Centralia Generation, L.L.C.*, 91 FERC ¶ 62,116 (2000). TransAlta applied for a redetermination of its exempt wholesale generator status based upon its acquisition of certain ancillary facilities. The Commission determined that TransAlta continues to be an exempt wholesale generator. *TransAlta Centralia Generation L.L.C.*, 110 FERC ¶ 62,185 (2005).

² The Settlement Agreement is between BPA, TransAlta, Chehalis Power Generating, L.P., Calpine Corporation, and its subsidiaries, Goldendale Energy Center, LLC and Hermiston Power Partnership.

³ *TransAlta Centralia Generation, L.L.C.*, 111 FERC ¶ 61,087 (2005).

3. TransAlta notes that under the terms of the Settlement Agreement, BPA agreed not to oppose TransAlta's future filing seeking Commission approval of reactive power rates for TransAlta's Facility. Additionally, TransAlta states that BPA agreed not to oppose TransAlta's right to seek compensation for reactive power determined pursuant to the rate methodology established by the Commission in *American Electric Power Service Corporation*,⁴ as it currently exists as of the date of the Settlement Agreement (Current AEP Methodology), regardless of any subsequent modifications to the methodology or new methodology adopted by the Commission.

4. According to TransAlta, while BPA retained the right to challenge the inputs into the Current AEP Methodology, BPA agreed that it would not contest: (1) the initial service factor applicable to the Facility of 20 percent, plus another 20 percent for a location premium; (2) an initial return on equity of 11 percent; (3) an initial capital structure of 50 percent equity and 50 percent debt; and (4) that the location premium for the Facility that will be used in annual recalculations will be equal to the service factor for each year.

5. TransAlta states that it will recalculate the service factor annually based on the three-year rolling average of the operational hours of the Facility. According to TransAlta, the initial service factor will apply for the period of October 1, 2005 through September 30, 2006. After September 30, 2006, the rate will be adjusted annually to reflect the revised service factor.

6. According to TransAlta, its proposed rate schedule sets forth its revenue requirement for providing reactive power to BPA based upon three components: (1) a fixed capability component that is designed to recover the portion of plant costs attributable to the reactive power capability of the Facility; (2) a service factor that is intended to represent the operational status of the Facility; and (3) a location premium equal to the service factor that TransAlta states is in recognition of the Facility's proximity to BPA's load.

7. TransAlta's proposes to calculate the fixed capability component by first determining the portion of its Facility's generator/excitation system and the generator step-up transformers used to produce reactive power. It states that it will determine its annual revenue requirement by applying a levelized annual carrying cost approach.

8. TransAlta requests that the Commission make its proposed rate schedule effective on October 1, 2005. It explains that this effective date is consistent with the Settlement Agreement.

⁴ See *American Electric Power Service Corporation*, 88 FERC ¶ 61,141 (1999) (AEP).

Notice of Filing and Responsive Pleadings

9. Notice of TransAlta's filing was published in the *Federal Register*, 70 Fed. Reg. 33,142 (2005), with interventions and protests due on or before June 16, 2005. Notice of TransAlta's amended filing was published in the *Federal Register*, 70 Fed. Reg. 36,137 (2005), with interventions and comments due on or before July 5, 2005. BPA filed a timely motion to intervene and protest. TransAlta filed an answer to BPA's protest.

10. BPA states that it protested TransAlta's filing for the following reasons: (1) inclusion of fuel and fuel transportation cost in the calculation of fixed Operations and Maintenance (O&M) expense and (2) use of a depreciation period of 19.5 years, which BPA states is significantly shorter than the more typical 30-35 year period.

11. BPA asserts that TransAlta improperly included fuel and fuel transportation costs in the calculation of fixed O&M expense and that fuel and fuel transportation costs, at least that portion related to generating real power, are not necessary for providing reactive power output from a generator. BPA states that it has not found a Commission-approved rate based on the Current *AEP* Methodology that includes fuel and fuel transportation costs as part of fixed O&M expenses.

12. BPA asserts that the proposed depreciation period of 19.5 years is much shorter than the 30-35 year period typically accepted by the Commission when merchant generators with market-based rate authority file a rate for cost-based reactive power service. BPA asserts that TransAlta's depreciation calculation results in an unfair and unjust rate.

13. BPA argues that the Commission should reject TransAlta's proposed rate because it is inconsistent with the Current *AEP* Methodology. BPA asserts that if the Commission fails to reject the proposed rate, the Commission should set this matter for hearing.

Discussion**Procedural Matters**

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), BPA's timely, unopposed motion to intervene serves to make it a party to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept TransAlta's answer and will, therefore, reject it.

Hearing and Settlement Judge Procedures

15. TransAlta's proposed rate schedule raises issues of material fact that cannot be resolved based on the record before us, and are more appropriately addressed in the hearing and settlement judge procedures ordering below.

16. Our preliminary analysis indicates that TransAlta's filing has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Accordingly, we will accept TransAlta's proposed rate schedule for filing, suspend it for a nominal period, make it effective October 1, 2005, as requested, and set it for hearing and settlement judge procedures. The issues to be addressed should include, among others: (1) inclusion of fuel and fuel transportation cost in the calculation of fixed O&M expense; and (2) use of a depreciation period of 19.5 years.

17. While we are setting these matters for a trial-type evidentiary hearing, we encourage the parties to make every effort to settle their dispute before hearing procedures are commenced. To aid the parties in their settlement efforts, we will hold the hearing in abeyance and direct that a settlement judge be appointed, pursuant to Rule 603 of the Commission's Rules of Practice and Procedure.⁵ If the parties desire, they may, by mutual agreement, request a specific judge as the settlement judge in the proceeding; otherwise, the Chief Judge will select a judge for this purpose.⁶ The settlement judge shall report to the Chief Judge and the Commission within 60 days of the date of this order concerning the status of settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions or provide for the commencement of a hearing by assigning the case to a presiding judge.

The Commission orders:

(A) TransAlta's proposed rate schedule for reactive power and voltage control service is hereby accepted for filing and suspended for a nominal period, to become effective October 1, 2005, as requested, subject to refund, as discussed in the body of this order.

⁵ 18 C.F.R. § 385.603 (2005).

⁶ If the parties decide to request a specific judge, they must make their joint request to the Chief Judge by telephone at (202) 502-8500 within five days of this order. The Commission's website contains a list of Commission judges and a summary of their background and experience (www.ferc.gov – click on Office of Administrative Law Judges).

(B) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R., Chapter I), a public hearing shall be held concerning TransAlta's proposed rate schedule for reactive power and voltage control services. However, the hearing shall be held in abeyance to provide time for settlement judge procedures, as discussed in Paragraphs (C) and (D) below.

(C) Pursuant to Rule 603 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.603 (2005), the Chief Administrative Law Judge is hereby directed to appoint a settlement judge in this proceeding within fifteen (15) days of the date of this order. Such settlement judge shall have all powers and duties enumerated in Rule 603 and shall convene a settlement conference as soon as practicable after the Chief Judge designates the settlement judge. If the parties decide to request a specific judge, they must make their request to the Chief Judge in writing or by telephone within five (5) days of the date of this order.

(D) Within sixty (60) days of the date of this order, the settlement judge shall file a report with the Commission and the Chief Judge on the status of the settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions, if appropriate, or assign this case to a presiding judge for a trial-type evidentiary hearing, if appropriate. If settlement discussions continue, the settlement judge shall file a report at least every sixty (60) days thereafter, informing the Commission and the Chief Judge of the parties' progress toward settlement.

(E) If settlement judge procedures fail and a trial-type evidentiary hearing is to be held, a presiding judge, to be designated by the Chief Judge, shall, within fifteen (15) days of the date of the presiding judge's designation, convene a prehearing conference in this proceeding in a hearing room of the Commission, 888 First Street, N.E., Washington, DC 20426. Such a conference shall be held for the purpose of establishing a procedural schedule. The presiding judge is authorized to establish procedural dates, and to rule on all motions (except motions to dismiss) as provided in the Commission's Rules of Practice and Procedure.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.